

THIRTY LAKES WATERSHED DISTRICT

BRAINERD, MINNESOTA

FINANCIAL STATEMENTS

with

INDEPENDENT AUDITORS' REPORT

Year Ended December 31, 2010

HUGH HEINECKE, CPA
Certified Public Accountants

THIRTY LAKES WATERSHED DISTRICT
Brainerd, Minnesota

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THIRTY LAKES WATERSHED DISTRICT

Brainerd, Minnesota

ORGANIZATION

As of December 31, 2010

Board of Managers

Gorden Hardy
Thomas Sweningson
Mark Young

District Manager

Tasha Lauer

Hugh Heinecke, CPA
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

**To the Board of Managers
Thirty Lakes Watershed District
Brainerd, Minnesota**

We have audited the accompanying financial statements of the governmental activities and major fund of Thirty Lakes Watershed District, Brainerd, Minnesota, as of and for the year ended December 31, 2010, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of governmental activities and major fund of Thirty Lakes Watershed District, Brainerd, Minnesota, as of December 31, 2010, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 10, 2011 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis, which follows this report letter, is not a required part of the basic financial statements, but is supplementary information required by accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The Individual Fund Statements and Schedules, as listed in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Individual Fund Statements and Schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Aitkin, Minnesota
June 10, 2011

Thirty Lakes Watershed District

Brainerd, Minnesota

MANAGEMENT’S DISCUSSION AND ANALYSIS

The Thirty Lakes Watershed Districts’ discussion and analysis provides an overview of the District’s financial activities for the fiscal year ended December 31, 2010. Since this information is designed to focus on the current year’s activities, resulting changes, and currently known facts, it should be read in conjunction with the Transmittal Letter and the District’s financial statements.

USING THIS ANNUAL REPORT

This annual report consists of three parts: management’s discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the District as a whole and present a longer-term view of the District’s finances. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the District’s operations in more detail than the government-wide statements by providing information about the District’s most significant funds. Since Districts are single-purpose special purpose governments they are generally able to combine the government-wide and fund financial statements into single presentations. District has elected to present in this format.

The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the District’s finances is, “Is the District as a whole better or worse off as a result of the year’s activities?” The Statement of Net Assets and the Statement of Activities report information about the District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using accrual basis of accounting, which is similar to the accounting used by the most private-sector companies. All of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District’s net assets and changes in them. You can think of the District’s net assets — the difference between assets and liabilities—as one way to measure the District’s financial health, or financial position. Over time, increases or decreases in the District’s net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as the condition of the District’s capital assets, to assess the overall health of the District.

In the Statement of Net Assets and the Statement of Activities, the District presents Governmental activities. All of the District’s basic services are reported here. Property taxes finance most activities.

Reporting the District's General Fund

Fund Financial Statements

The fund financial statements provide detailed information about the general fund—not the District as a whole. The District presents only a general fund, which is a governmental fund. All of the District's basic services are reported in the general fund, which focuses on how money flows into and out of those funds and the balances left at year-end that are available for spending. The fund is reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The general fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the financial statements.

THE DISTRICT AS A WHOLE

The District's combined net assets were lower, decreasing from \$305,020 to \$281,374, due mainly to an increase in current expenditures over the prior year.

Table 1
Net Assets

	Governmental Activities	
	2010	2009
Current and other assets	299,316	325,294
Capital assets	-	-
Total assets	299,316	325,294
Current liabilities	17,942	20,274
Total liabilities	17,942	20,274
Net assets	281,374	305,020
Invested in capital assets, net of debt	-	-
Restricted	-	-
Unrestricted	281,374	305,020
Total net assets	281,374	305,020

Net assets of the District governmental activities decreased by 7.75 percent (\$281,374 compared to \$305,020). Unrestricted net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements—changed from a \$305,020 surplus at December 31, 2009 to a \$281,374 surplus at the end of this year.

TABLE 2
Changes in Net Assets

	<u>Governmental</u> <u>Activities</u>	
	<u>2010</u>	<u>2009</u>
Revenues		
Program revenues:		
State revenues	6,373	14,060
Charges for service	84	1,123
General revenues		
Property taxes	229,146	202,312
Other general revenues	1,733	3,263
Total revenues	237,336	220,758
Program expenses		
Conservation	260,982	174,013
Total expenses	260,982	174,013
Excess (deficiency) before special items and transfers	(23,646)	46,745
Special items-depreciation	-	846
Increase (decrease) in net assets	(23,646)	45,899

The District's total revenues (excluding special items) increased by 7.50 percent (\$16,578). The total cost of all programs and services increased significantly by \$86,969, (or just under 49.98 percent) with an increase in the number of district projects this year.

THE DISTRICT'S FUNDS

As the District completed the year, its general fund (as presented in the balance sheet) reported a combined fund balance of \$281,374, which is below last year's total of \$305,020. Included in this year's total change in fund balance, however, is a deficit of \$23,646 in the District's General Fund. The primary reasons for the General Fund's deficit mirror the governmental activities analysis.

General Fund Budgetary Highlights

The actual charges to appropriations (expenditures) were \$18,682 over the final budget amounts. The most significant negative variance (\$40,305) occurred in the District project expenditures, where one project (Pelican Lake) came in significantly over budget. Conversely, personal services had a positive variance (\$21,072).

Similarly, resources available for appropriation were \$4,964 under the final budgeted amount. Property taxes were under budget by \$6,754 while revenue from state sources was over budget by \$1,973.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2010, the District had \$5,703 invested in a few capital assets, consisting of office equipment. This amount represents no change from the prior.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Office Administrator, Thirty Lakes Watershed District, PO Box 376, Brainerd, Minnesota 56401.

THIRTY LAKES WATERSHED DISTRICT
Brainerd, Minnesota

STATEMENT OF NET ASSETS
As of December 31, 2010

**Governmental
Activities**

ASSETS

Cash and investments	\$ 281,109
Accounts receivable	-
Due from other governmental units	17,335
Prepaid items	<u>872</u>
	<u>299,316</u>
Capital Assets	
Furniture and equipment	5,073
Accumulated depreciation	<u>(5,073)</u>
Net capital assets	<u>-</u>
Total Assets	\$ <u>299,316</u>

LIABILITIES

Current Liabilities:

Accounts payable	\$ 5,749
Accrued payroll taxes payable	3,391
Deferred revenue	<u>8,802</u>
Total Current Liabilities	<u>17,942</u>

NET ASSETS

Invested in capital assets	-
Unrestricted	<u>281,374</u>
Total Net Assets	<u>281,374</u>
Total Liabilities and Net Assets	\$ <u>299,316</u>

See notes to basic financial statements.

THIRTY LAKES WATERSHED DISTRICT
Brainerd, Minnesota

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2010

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
<u>Governmental Activities</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Conservation	\$ 260,982	\$ 84	\$ 6,373	\$ -	\$ (254,525)
Total Governmental Activities	\$ 260,982	\$ 84	\$ 6,373	\$ -	(254,525)
		General Revenues			
					229,146
					1,733
					<u>230,879</u>
					(23,646)
					<u>305,020</u>
					<u>\$ 281,374</u>

See notes to basic financial statements.

THIRTY LAKES WATERSHED DISTRICT
Brainerd, Minnesota

BALANCE SHEET
GOVERNMENTAL FUNDS
As of December 31, 2010

	<u>General</u>
ASSETS	
Cash and investments	\$ 281,109
Accounts receivable	-
Due from other governmental units	17,335
Prepaid items	<u>872</u>
Total Assets	<u>\$ 299,316</u>
LIABILITIES AND FUND BALANCES	
LIABILITIES	
Accounts payable	\$ 5,749
Accrued payroll taxes payable	3,391
Deferred revenue	<u>8,802</u>
Total Liabilities	<u>17,942</u>
FUND BALANCES	
Unreserved	
Undesignated	<u>281,374</u>
Total Fund Balances	<u>281,374</u>
Total Liabilities and Fund Balances	<u>\$ 299,316</u>

See notes to basic financial statements.

THIRTY LAKES WATERSHED DISTRICT
Brainerd, Minnesota

RECONCILIATION OF THE BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS

As of December 31, 2010

Total Fund Balances - Governmental Funds **\$ 281,374**

Amounts reported for governmental activities in the
Statement of Net Assets are different because:

Capital assets are included in net assets, but
are excluded from fund balances because they
do not represent financial resources.

Cost of capital assets	5,073
Accumulated depreciation	<u>(5,073)</u>

Total Net Assets - Governmental Activities **\$ 281,374**

See notes to basic financial statements.

THIRTY LAKES WATERSHED DISTRICT
Brainerd, Minnesota

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS

For the year ended December 31, 2010

	<u>General</u>
REVENUES	
Property taxes	\$ 229,146
Intergovernmental	
Federal sources	-
State sources	6,373
County sources	-
Charges for services	84
Investment earnings	<u>1,733</u>
Total Revenues	<u>237,336</u>
EXPENDITURES	
Conservation	
Current	260,982
Capital outlay	<u>-</u>
Total Expenditures	<u>260,982</u>
Excess of Revenues Over/ (Under)	
 Expenditures	(23,646)
Beginning Fund Balances	<u>305,020</u>
Ending Fund Balances	<u>\$ 281,374</u>

See notes to basic financial statements.

THIRTY LAKES WATERSHED DISTRICT
Brainerd, Minnesota

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND**

For the year ended December 31, 2010

	Budgeted Amounts		Actual	Favorable (Unfavorable) Budget Variance
	Original	Final		
REVENUES				
Property taxes	\$ 235,900	\$ 235,900	\$ 229,146	\$ (6,754)
Intergovernmental				
Federal sources	-	-	-	-
State sources	4,400	4,400	6,373	1,973
County sources	-	-	-	-
Charges for services	-	-	84	84
Investment earnings	<u>2,000</u>	<u>2,000</u>	<u>1,733</u>	<u>(267)</u>
Total Revenues	<u>242,300</u>	<u>242,300</u>	<u>237,336</u>	<u>(4,964)</u>
EXPENDITURES				
Conservation				
Current	242,300	242,300	260,982	(18,682)
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>242,300</u>	<u>243,300</u>	<u>260,982</u>	<u>(18,682)</u>
Excess of Revenues Over/(Under) Expenditures	<u>\$ -</u>	<u>\$ -</u>	(23,646)	<u>\$ (23,646)</u>
Beginning Fund Balances			<u>305,020</u>	
Ending Fund Balances			<u>\$ 281,374</u>	

See notes to basic financial statements.

THIRTY LAKES WATERSHED DISTRICT

Brainerd, Minnesota

NOTES TO FINANCIAL STATEMENTS

As of December 31, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial reporting policies of the Thirty Lakes Watershed District, Crow Wing County, Minnesota, conform to accounting principles generally accepted in the United State of America (GAAP), as applied to governmental units. These statements are prepared in accordance with Government Accounting Standards Board (GASB) Rule 34, which changes the way both the statement of condition and the statement of revenues and expenses are reported.

A. Reporting Entity

The District is organized under provisions of Minnesota Statutes Chapter 103D and is governed by a Board of Managers composed of three members appoint by the Crow Wing County Commissioners.

The purpose of the District is to protect the natural resources of the Watershed District, to protect the health and welfare of the District's residents, to control direct and indirect pollution of waters within the District, and to otherwise maintain the high quality of the surface and ground waters of the District.

For financial reporting purposes, the District's financial statements include all funds over which the District's officials exercise oversight responsibility. Accounting principles generally accepted in the United States of America require that the financial reporting entity include the primary government and component units for which the primary government is financially accountable. Under these principles the District does not have any component units. Although the managers are appointed, the District is not a component unit of the County since the County does not have the ability to impose its will on the District or meet the financial benefit or burden consideration.

B. Basis of Presentation – Fund Accounting

The accounts of the Thirty Lakes Watershed District are organized on the basis of a fund and an account group, each of which is considered a separate accounting entity. The operations of the fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures.

1. Government Fund: General Fund

The General Fund is used to account for all revenues and expenditures incurred in operating the District.

2. General Fixed Assets Account Group

This account group is used to record the District's general fixed assets, which include furniture and equipment.

C. Government-Wide Financial Statements

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Activities) report information on all the nonfiduciary activities of the District. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

THIRTY LAKES WATERSHED DISTRICT

Brainerd, Minnesota

NOTES TO FINANCIAL STATEMENTS

As of December 31, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Government-Wide Financial Statements (Continued)

Property taxes, intergovernmental revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

Project expenditures represent costs that are funded from federal, state, or district revenues. District project expenditures are costs of materials and supplies in District projects.

Fund Financial Statements

The government reports the general fund as its only major governmental fund. The general fund accounts for all financial resources of the government.

The District's financial statements (general fund) are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become susceptible to accrual, that is, both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenue sources susceptible to accrual include intergovernmental revenues, charges, and interest. Expenditures are recorded when the corresponding liabilities are incurred.

Intergovernmental revenues are reported in conformity with the legal and contractual requirements of the individual programs. Generally, grant revenues are recognized when the corresponding expenditures are incurred. If the District also receives an annual appropriation from the County, it is recognized as revenue when received, unless it is received prior to the period to which it applies. In that case, revenue recognition is then deferred until the appropriate period.

Investment earnings and revenues from the sale of trees are recognized when earned. Agricultural conservation fees and other revenue are recognized when they are received in cash because they usually are not measurable until then.

Project expenditures represent costs that are funded from federal, state, or district revenues. State project expenditures consist of grants to participants of the cost-Share Program and other state programs. District project expenditures are costs of materials and supplies in District projects.

In accordance with Governmental Accounting Standards Board Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, revenues for nonexchange transactions are recognized based on the principal characteristics of the revenue. Exchange transactions are recognized as revenue when the exchange occurs.

D. Budget Information

The District adopts an estimated revenue and expenditure budget for the General Fund. Comparisons of estimated revenues and budgeted expenditures to actual are presented in the financial statements in accordance with generally accepted accounting principles. Amendments to the original budget require board approval. Appropriations lapse at year-end. The District does not use encumbrance accounting.

THIRTY LAKES WATERSHED DISTRICT
Brainerd, Minnesota

NOTES TO FINANCIAL STATEMENTS
As of December 31, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities and Fund Equity

Assets – Investments are stated at fair value, except for non-negotiable certificates of deposit, which are on a cost basis, and short-term money market investments, which are stated at amortized cost.

Fixed assets are reported on a net (depreciated) basis. General fixed assets are valued at historical or estimated historical cost.

Liabilities – Long-term liabilities, such as compensated absences, are accounted for in the General Long-Term Debt Account Group.

Equity – Investment in general fixed assets represents the District’s equity in general fixed assets.

Reserved fund balance indicates the portion of fund equity that has been legally segregated for specific purposes or is not appropriable for spending.

Unreserved, designated account indicates the portion of fund equity that the District has set aside for planned expenditures.

Unreserved, undesignated fund balance account indicates the portion of fund balance that is available for budgeting and spending in future periods.

2. DEPOSITS AND INVESTMENTS

Minnesota Statutes 118A.02 and 118A.04 authorize the District to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Board of Managers. At December 31, 2010, District deposits totaled \$281,109 of which \$175,225 was cash deposits and \$105,884 was invested in certificates of deposit. Minnesota Statutes require that all District deposits be covered by insurance, surety bond or collateral. At December 31, 2010 all funds on deposits at financial institutions were covered by insurance or collateralized with securities held by the District or its agent in the District’s name.

3. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2010 is as follows:

	Balance 12-31-09	Additions	Deletions	Balance 12-30-10
Furniture and equipment	\$ 5,703	\$ –	\$ –	\$ 5,703
Accumulated depreciation	(5,703)	–	–	(5,703)
Net Capital Assets	\$ –	\$ –	\$ –	\$ –

Depreciation expense for the year ended December 31, 2010 was \$-0-.

THIRTY LAKES WATERSHED DISTRICT

Brainerd, Minnesota

NOTES TO FINANCIAL STATEMENTS

As of December 31, 2010

4. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Defined Benefit Pension Plans - Statewide

Plan Description - All full-time and certain part-time District employees are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356.

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by State Statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for Basic members is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon death of the retiree--no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

PERA issues a public available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained on the internet at www.mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

THIRTY LAKES WATERSHED DISTRICT

Brainerd, Minnesota

NOTES TO FINANCIAL STATEMENTS

As of December 31, 2010

4. **PUBLIC EMPLOYEES RETIREMENT ASSOCIATION** (Continued)

Defined Benefit Pension Plans – Statewide (Continued)

Funding Policy - *Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plan equal to the amount required by state statutes. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.0%, respectively, of their annual covered salary in 2010. The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.0% for Coordinated Plan members. The District's contributions to the Public Employees Retirement Fund for the years ending December 31, 2010, 2009 and 2008 were \$2,903, \$4,144, and \$3,932, respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statute.

5. **RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health and dental coverage; and natural disasters. Property and casualty liabilities and workers compensation are insured through the Western National and Minnesota Joint Underwriting Association. The District is covered for errors and omissions through the Indiana Insurance. The District retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the basic financial statements.

There were no significant increases or reductions in insurance from the previous year or settlements in excess of insurance for any of the past three fiscal years.

6. **CONTINGENCIES**

District management is aware of no existing, pending, or threatened legal action against the District at December 31, 2010.

The District has received State grants for specific purposes that are subject to review and audit by the respective agencies. Such audits or reviews could lead to requests for reimbursements for expenditures disallowed under the terms of the grants and loans, however, District management is of the opinion that any such reimbursements would be minor.

THIRTY LAKES WATERSHED DISTRICT

Brainerd, Minnesota

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended December 31, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES			
Property taxes	\$ 235,900	\$ 229,146	\$ (6,754)
Intergovernmental			
Federal sources	-	-	-
State sources	4,400	6,373	1,973
County sources	-	-	-
Charges for services	-	84	84
Investment earnings	<u>2,000</u>	<u>1,733</u>	<u>(267)</u>
Total Revenues	<u>242,300</u>	<u>237,336</u>	<u>(4,964)</u>
EXPENDITURES			
District Operations			
Personal services	91,300	70,228	21,072
Other services and charges	40,500	42,238	(1,738)
Supplies	4,000	1,711	2,289
Capital outlay	-	-	-
Project Expenditures			
District	<u>106,500</u>	<u>146,805</u>	<u>(40,305)</u>
Total Expenditures	<u>242,300</u>	<u>260,982</u>	<u>(18,682)</u>
Excess of Revenue Over/(Under) Expenditures	-	(23,646)	(23,646)
Beginning Fund Balance	<u>305,020</u>	<u>305,020</u>	<u>-</u>
Ending Fund Balance	<u>\$ 305,020</u>	<u>\$ 281,374</u>	<u>\$ (23,646)</u>

Hugh Heinecke, CPA

Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

**To the Board of Managers
Thirty Lakes Watershed District
Brainerd, Minnesota**

We have audited the financial statements of Thirty Lakes Watershed District, Brainerd, Minnesota, as of and for the year ended December 31, 2010 and have issued our report thereon dated June 10, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of management, the Board of Managers, Minnesota Office of the State Auditor, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

June 10, 2011

Hugh Heinecke, CPA
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE

**To the Board of Managers
Thirty Lakes Watershed District
Brainerd, Minnesota**

We have audited the financial statements of Thirty Lakes Watershed District, Brainerd, Minnesota, as of and for the year ended December 31, 2010 and have issued our report thereon dated June 10, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to *Minnesota Statutes* § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories, except that we did not test for compliance in public indebtedness because the District is not allowed to issue debt.

The results of our tests indicate that for the items tested, the District complied with the material terms and conditions of applicable legal provisions.

This report is intended for the information and use of the Board of Managers, and Minnesota Office of the State Auditor and is not intended to be, and should not be, used by anyone other than those specified parties.

June 10, 2011